III Background, management, markets and strategy (continued)

Banque du Caire

- Banque du Caire is the Group's principal banker and 7% shareholder. They acted as underwriters and guarantors for two Egyptian Pound denominated bond issues comprising of LE 250 million to ASF, and LE 400 million to the Holding Company, and provided major bank facilities. They are entitled to appoint a representative to the Board of Directors of Lakah Holdings (their present representative being Badawi Hassanein).
- On 29 September 1998, ASF issued LE 250 million 2005 11% bonds, underwritten and guaranteed by Banque du Caire. A 0.5% per annum guarantee fee is payable to Banque du Caire. These bonds have a term of seven years.
- In March 1999, Holdings issued LE 400 million 2006, 11% bonds, underwritten and guaranteed by Banque du Caire. A 0.5% per annum guarantee fee is payable to Banque du Caire. These bonds have a term of seven years.
- Bank loan facilities provided to the Group by Banque du Caire are as follows:

		Balance at 31 December 2000
TMSE	Loan	LE 90,864,000
Medequip	Loan	LE 63,034,000
Holdings	Loan	LE 76,069,000

III Background, management, markets and strategy (continued)

Banque du Caire (continued)

- There appears to be a significant level of difficulty in the relationship between the Group and Banque du Caire at the present time and, given the size of Banque du Caire's exposure to the Group, this is clearly a sensitive and important matter.
- We have not had opportunity to speak with Banque du Caire and to understand their position on the various issues. Further, many of the issues touched upon below are legal questions. Even if we were in possession of all of the relevant facts, it would be inappropriate for us to comment upon the merits of the legal arguments. However, it is appropriate that Bond holders be aware of the issues.
- We understand that the difficulties commenced at the time of the sale of ASF.
- For the ASF LE 250 million bonds to secure the guarantee obligation, Banque du Caire had taken pledges on 800,000 shares of Medequip and 400,000 shares of TMSE. In addition, ASF undertook not to borrow from other banks.
- As part of the financial restructuring agreed pursuant to the issue of Eurobonds in December 1999, it was agreed that Banque du Caire would release the pledges held (over the Medequip and TMSE shares) and release ASF from its undertaking not to borrow from other banks. In consideration for so doing, Banque du Caire would receive US$35 million – then equivalent to LE 119 million – from the proceeds of the Eurobond issue to be placed in a blocked deposit account to provide a sinking fund to repay the LE 250 million bonds on maturity.
- On 8 December 1999, Banque du Caire instructed MISR for Settlements (official Egypt security agent) to release the pledges on the shares. It is also cancelled the restriction on ASF borrowings from other banks. The deposit of US$35 million was duly made.
- It is alleged by the Group that, following receipt of the deposit, Banque du Caire caused ASF to grant a pledge on ASF's assets in favour of Banque du Caire, using a power of attorney held by the Bank in accordance with normal Egyptian banking practice.

III Background, management, markets and strategy (continued)

Banque du Caire (continued)

- In January 2000, the business and operating assets of ASF were sold for LE 321 million. The consideration was payable partly in cash LE 100 million, and partly in Notes totalling LE 221 million payable over six years, guaranteed by National Bank of Egypt. The Notes were deposited in Banque du Caire in the expectation that, as they matured, the proceeds would be made available to the Group for investment and other purposes.
- The Group believes that when the sale of ASF was completed and the Notes were deposited with Banque du Caire, the Group was not in default of its obligations to either local banks or Bondholders.
- Banque du Caire is paying the proceeds of the Notes into a blocked deposit account accruing interest. We understand that Banque du Caire intends to apply the proceeds and interest thereon to repay Holdings' bond on maturity LE 400 million.
- The Group has requested that Banque du Caire release pledges held on non-Eurobond guarantee assets and shares or to release the Notes and proceeds thereof.
- We understand that Banque du Caire is, however, keeping the proceeds of the Notes, and maintaining the pledges held over various non-guarantee company assets.
- We also understand that Banque du Caire cancelled facilities it had previously offered to make available to finance a medical centre at El Korba in Heliopolis, to be built and operated by MCMC.
- The Group considers that this action at a time when the Group considers that it was not in default, caused significant loss to the Group and was a contributory cause of its decline.

III Background, management, markets and strategy (continued)

Banque du Caire (continued)

- In particular, by holding the Notes payable and not releasing either the proceeds or other security held, the Group considers that Banque du Caire deprived the Group of both liquid funds and the opportunity to raise additional loans from other banks to invest in other activities (such as the El Korba project and a new venture in medical consumables) which:
    - Has deprived the Group of a revenue and profit stream from ASF, Amitrade and Universal Trucking which they have been unable to replace. In 1999 these companies contributed profits of ASF- LE 24 million (before an extraordinary gain of LE 18 million), Amitrade- LE 38 million (before tax of LE 13 million) and Universal Trucking- LE 9 million.
    - The benefit of the Notes Receivables as they matured over the forthcoming six years.

Strategic financial planning and control

- The Group's lack of an effective CFO has hindered the Group's ability to deal with the difficult financial circumstances facing the Group.
- Operating in relatively unstable developing markets, growing rapidly and potentially subject to relatively rapid swings in its revenues, the Group was highly geared and paying relatively high rates of interest. This serves to increase the risks in the Group.
- Furthermore, although much of its revenues are in Egyptian pounds, its key suppliers require payment in US dollars, leading to currency exposure which, with the depreciation and non-availability of the Egyptian pound, has contributed to the difficulties.
- The Group's financial systems are weak and since mid-2000 there has been an absence of budgetary control.